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Jack Jones

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This document consists of 3 pages  
No. 7 of 9 A Copies, Series A

To: B - Mr. Ball  
THROUGH: A/S  
FROM: AFA - Wymberley E.H. Coerr  
SUBJECT: Mexican Oil Import Problem

APR 11 1961

Discussion

As Mr. Martin pointed out to you in his memorandum of April 7, we are experiencing great difficulty with the Department of the Interior regarding our commitment to Mexico for the import of asphaltic crude and residual oil overland to Brownsville, Texas.

1. Interior claims the Brownsville arrangement is an absurd procedure that can be indefinitely expanded and could be used by non-contiguous countries to circumvent the objectives of the import quota system.

Admittedly, the system is based upon a technicality, and Mexico is perfectly willing to construct a pipeline from its oil fields to Brownsville, but Interior does not wish to give any assurances that it will permit the pipeline operation long enough to amortize the \$6 billion or so that the pipeline will cost, nor will it permit the present arrangement on an interim basis at its present level. Mexico is willing to limit its truck imports to 30,000 barrels per day but not to cut them back by half.

2. Interior argues that when the Brownsville arrangement was under consideration Mexico's immediate concern was finding an outlet for 15,000 barrels of residual oil. Therefore, the arrangement should be limited to 15,000 barrels of residual oil and United States consumers of the Mexican product should use it exclusively for fuel, not process it for any other purpose.

Mexico has always exported residual oil and asphaltic crude, making no distinction between the two in considering its surplus problem, because its exported crude is so heavy (over 95% residual content) that it is residual oil for all practical purposes. However, this crude is peculiarly suited to the manufacture of asphalt roofing material and since there is virtually no comparable domestic crude, it is readily saleable in the United States. If Interior's concern is to protect our domestic industry, one would expect it to attack Mexico's residual exports, not its asphaltic crude. At any rate, our present regulations do not distinguish between crude and residual imports by overland transportation nor do they permit us to dictate to domestic importers the use they make of the product they import.

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With regard to Interior's desire to impose a quantitative limitation, we should be guided by the OSDH's security justification on which the entire import quota system is based. This does not encompass protection for domestic producers in the narrow commercial sense for which escape clause action is available. National security is also the basis for the overland exemption to Canada and Mexico because pipeline oil from contiguous countries is the equivalent of domestic production from the security point of view.

Historically, Mexico has exported more than 30,000 barrels of its heavy oils to our northeastern states and bought refined products from California. When import quotas were imposed, this arrangement continued until Mexico's major customer, the Paragon Oil Company, was bought out by the Texas Oil Company so that Texas Oil could use the Paragon import quota to buy Trinidad oil. This left Mexico with an unexportable surplus of heavy oils which overflowed its storage facilities and was forcing it to dump 15,000 barrels of residual per day, much of it in open holes in the ground. When Cuba offered to buy Mexico's surplus heavy oils, Mexico asked us to modify our regulations to permit ex-quota imports of Mexican oil. We countered with the Brownsville arrangement but did not, and legally could not, unilaterally place a quantitative limitation on Mexico's overland imports, any more than we did on Canada's.

Surely we should not be required to treat Mexico less favorably than Canada. Historically Canada exported about 118,000 barrels per day to the United States. When the overland exemption was granted, it was understood that Canada would increase its exports by about 30,000 to 40,000 barrels, largely in the Puget Sound area. Recently this Administration made no objection to a Canadian announcement of its intention to increase its exports from some 130,000 barrels in 1961 to 225,000 barrels by 1963. Considering the volume of Canadian oil we import and the total United States consumption of 113,000,000 barrels of residual and crude, Interior's preoccupation with Mexico's 30,000 barrels is difficult to understand.

Of course, neither Canada nor Mexico should use the overland exemption to flood our market. We favor a bilateral agreement with Mexico that would permit it to amortize the construction of a pipeline and establish a reasonable limitation on its imports.

Based upon our Canadian experience, a fair level of overland imports from Mexico would be about 40,000 barrels per day, allowing a reasonable increase over the present rate to cover a part of Mexico's growing production and to make construction of a pipeline economically attractive. This level could be modified by mutual agreement as

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conditions warrant.

A fair trade policy with Mexico is essential to satisfactory relations with that country, already hit by our restrictions on its exports of lead and zinc, the recent two-cent increase in our cotton subsidy and the impending limitation on tourist imports — all this despite a bilateral trade account already two to one in our favor. Our unilateral abrogation of the Brownsville commitment would be considered the last straw.

International relations aside, it is in the national interest to come to an agreement with Mexico to establish pipeline imports under fair limitations that can be maintained for a reasonable period of time in full recognition that we need Mexico's residual and asphaltic crude as long as our domestic refineries find it more profitable to turn out lighter products.

#### Recommendation

That you again attempt to obtain Interior's acquiescence to (a) continuance of the present Brownsville arrangement at the 30,000 barrel level until a pipeline is constructed, and (b) a written agreement with Mexico permitting pipeline operations at the 40,000 barrel level until the cost of the line can be amortized.

Approved \_\_\_\_\_

Disapproved \_\_\_\_\_

Concurrences:

FSD

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